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TO RUEHC/SECSTATE WASHDC 8464
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RUEHRI/AMCONSUL RIO DE JANEIRO 8816
RUEHBU/AMEMBASSY BUENOS AIRES 3234
RUEHAC/AMEMBASSY ASUNCION 3481
RUEHMN/AMEMBASSY MONTEVIDEO 2759
RUEHSG/AMEMBASSY SANTIAGO 2481
RUEHLP/AMEMBASSY LA PAZ 3893
RUCPDOG/USDOC WASHDC 3150
RUEATRS/DEPT OF TREASURY WASHDC
RHMFIUU/DEPT OF ENERGY WASHDC
RUEHRC/USDA FAS WASHDC 0741
RHEHNSC/NATIONAL SECURITY COUNCIL WASHDC

UNCLAS SECTION 01 OF 02 SAO PAULO 000443

SIPDIS
SENSITIVE

STATE FOR WHA/BSC, WHA/EPSC FOR FCORNEILLE, E FOR GMANUEL
STATE PASS USTR FOR KDUCKWORTH
STATE PASS DOE/NREL FOR HCHUM
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SUBJECT: ETHANOL, THE WTO, AND THE PRIVATE SECTOR: ROOM TO TALK?

SENSITIVE BUT UNCLASSIFIED--PLEASE PROTECT ACCORDINGLY

Ref: 08 Sao Paulo 0423

SUMMARY

1. (SBU) In the event of a WTO dispute over US tariffs on ethanol imports from Brazil, Brazil's largest association of sugar and ethanol producers (UNICA) would likely be asked to pay for the litigation. Conversations with high-ranking UNICA representatives show an organization ready for litigation, but hopeful for a negotiated settlement. Mission is ready to support a strategy of engagement with UNICA and Government of Brazil interlocutors to forestall any possible WTO action. END SUMMARY.

UNICA WANTS TO SETTLE

2. (SBU) During a reception for visiting Deputy Secretary of Energy, Jeffrey Kupfer on August 6, Econoff discussed the potential for WTO action over ethanol with UNICA President Marcos Jank. Jank stated emphatically that a suit in the WTO that resulted in an abolition of the tariff was in the interest of its constituents who stand to gain not only from exports to the US, but also from rising prices in the domestic market (reftel). However, Jank did state that he understands the political sensitivity of any WTO dispute, and is seeking interlocutors in the US with whom he can discuss these issues during a planned trip to the US in October. While Jank knows this is a Congressional mandate that goes to 2010, he believes there are mechanisms for reducing the tariff from 54 to 45 cents per gallon that would match the reduction in the blender's tax credit in the US. He is also hopeful of negotiating a long-term strategy for removing the tariff that he could sell to his member companies instead of going straight to litigation in the WTO. (NOTE: Not only did UNICA pay for the WTO case against the EU sugar regime, but Jank is a well-known expert in these cases and did the economic analysis behind the cotton case and the sugar regime case while working at ICONE-Institute for Commercial and International Relations Studies. END NOTE.)

3. (SBU) Director for Corporate Communications, Adhemar Altieri,

similarly stated that while UNICA stands prepared to seek formal redress at the WTO, the organization is first seeking a negotiated settlement that would avoid disruptions in the domestic market and allow for producers in Brazil to ramp up production to meet increased demand from the US. While UNICA seems to believe that they may receive pressure to file a suit at the WTO, Altieri stated that a system of quotas or a graduated reduction in the tariff would be preferable to an immediate withdrawal of the tariff for the Brazilian economy. When questioned whether the removal of the tariff could lead to GOB export controls to maintain the domestic supply of ethanol, Altieri responded that UNICA has approached Chief of Staff equivalent, Dilma Rousseff, regarding the very negative consequences of any export controls by the GOB. (NOTE: Altieri did not indicate what Rousseff's response had been. END NOTE.)

COMMENT

¶4. (SBU) Domestic industry will have to decide how hard to advocate for taking the ethanol tariff to the WTO. While the GOB may wish to lay down a marker that it is ready to consider a case in the wake of the stalled Doha process, there is little chance for a case to go forward if the industry is not firmly supportive. Jank genuinely understands the political repercussions of taking on a new US administration as it comes into office as well as the potential impact this case could have in our bilateral efforts on biofuels through our MOU. Jank and UNICA have been active players in the biofuels MOU process and will likely participate in the upcoming private sector advisory committee meeting being convened by conference call August 20, as part of U/S Reuben Jeffery's visit to Brazil.

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¶5. (SBU) Mission suggests we engage proactively with Jank and support him in meeting with a series of relevant US interlocutors during his next visit to the United States in October. Considering that the industry would be required to pay for any WTO case, proactive discussions with Jank could forestall the industry's support for this litigation. These meetings could include, for example, key interlocutors at USTR and other USG agencies as well as in Congress. END COMMENT.

¶6. This cable was coordinated with and cleared by the Embassy in Brasilia.

WHITE